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GS-X pipeline possibility fading ~ Patrick Brown

Although BC Hydro is still receiving tenders (until August 13) for the provision of additional electricity to Vancouver Island and most plans of BC Hydro's qualified bidders are predicated on using natural gas as fuel, it seems increasing unlikely that any gas will be delivered by the Georgia Strait Crossing (GS-X) pipeline. Indeed, it is increasingly unlikely that natural gas-powered generation will be used at all because the rising price of gas makes it uncompetitive.

Hedging Their Bets

In fact, Hydro's 2004 Integrated Electricity Plan (IEP) submitted to the BC Utilities Commission (BCUC) suggests the construction of a new 230kV transmission line, with an inservice date of 2009, as a fallback strategy. To quote the plan: 'building additional gas-fired generation on Vancouver Island beyond the call for tenders to defer the 230 kV cables from F2009 to F2016 is not a least cost alternative in the current conditions.'

In addition, indications are that BC Transmission Company (BCTC), which now owns all the major power lines under the government's breakup of BC Hydro, has also included the construction of the 230kV line in its current capital budget.

And BC Hydro President and CEO Bob Elton announced at the end of May that Hydro would write down some \$120 million of anticipated losses on the Vancouver Island Generation Project (VIGP)/GS-X project against its 2004 income.

These three actions suggest that the natural gas-powered VIGP as first envisioned will not come to fruition. And, even if natural gas were to be used to generate power on Vancouver Island, it's likely that it would travel through Terasen's pipeline (probably augmented by a Liquid Natural Gas storage facility on the Island) rather than through the not-yet-built GS-X pipeline. (Terasen Gas Vancouver Island Ltd. have set their transportation cost for natural gas to the Island at less than transport by the proposed Georgia Strait Crossing pipeline would cost.)

What Changed Hydro's Mind?

It appears that the representations made to the Public Utilities commission by concerned Vancouver Islanders (some organized as the GSX Concerned Citizens' Committee, or GSXCCC), have finally got through to BC Hydro. Many points of the new

History of the GS-X Pipeline

The GS-X pipeline was originally proposed in the mid 1990s by BC Hydro as a means of moving natural gas from a hub at the US border in Washington State across the Strait of Georgia, through Boundary Pass and the Gulf Islands (and present and proposed marine ecological reserves) to come ashore south of Duncan and connect to the existing Terasen distribution system and thence to a gas turbine generator at Duke Point near Nanaimo. It was to be constructed as a joint venture with the US company Williams Pipelines, who were promised a steady income stream for their participation (the exact nature of this contract has not been made public).

The GS-X/VIGP plan met with fierce opposition from environmentalists, economists, industrial electricity users on Vancouver Island, First Nations, landowners and many others, both in Washington State and in Canada.

But BC Hydro and Williams doggedly pursued regulatory approval for both the pipeline and the generation facilities. The pipeline received regulatory approval from the National Energy Board in Canada and from the Federal Energy Regulatory Commission in the US. But the BC Utilities Commission told Hydro that they did not believe that the VIGP plan was the most 'cost-effective' way of providing additional power to Vancouver Island, and suggested that BC Hydro call for tenders for alternatives (the process that will end August 13).

Integrated Electricity Plan were first suggested by GSXCCC.

- The VIGP may continue in a form in which Vancouver Island's pulp mills generate much of their own power.
- The IEP puts emphasis on additional generating capacity at dams at Revelstoke, Mica, and Site C on the Peace River (opposition to the latter has already appeared).
- Additional transmission capacity from the interior to the Lower Mainland will also be needed by 2014.
- The IEP also anticipates a continuation of conservation projects through Power Smart 2, and the introduction of stepped and 'time of use' rates for consumers.
- Hydro will still pursue connections to Independent Power Producers, but no mention is made of the Columbia River legacy power—some 1400 mW which is generated in the US from BC

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water, and sold in the US with the income going directly to the provincial government.

All this could be interpreted as a move back towards power self-sufficiency for BC, as opposed to last year's apparent objective of raising the price of power in BC and selling as much as possible in the US market. ☞

Writing off the GS-X/VIGP costs

Hydro president/CEO Bob Elton announced in late May that the company would take a \$120 million charge against 2004 income to reflect possible (probable?) losses on the GS-X/VIGP projects. Hydro's answers to questions at BCUC hearings indicated that this was composed of the cost of the (already purchased) gas turbine \$68 million, which might be sold for \$30 million; steam turbine \$23 million; engineering costs for VIGP \$5 million, land commitments \$2 million, and 'sunk costs' for GSX \$46 million. These 'sunk costs' are not explained, but may relate to BC Hydro guarantees to Williams Pipelines.

(This might, of course, mean that anyone who could make use of the gas turbine could get it for \$30 million, and therefore be subsidized by BC Hydro to the extent of \$38 million. Could this help keep proposals for the Duke Point generation plant alive?)

Why Make Vancouver Island Electrically Self-sufficient?

It was the former NDP government which first discovered that BC's unique combination of high-voltage connections to Alberta and the US, combined with the immense storage capacity in BC's hydroelectric dams, gave the province tremendous potential to buy cheap power (typically from Alberta, at night) and sell expensive power (to California, in the daytime). This gave rise to the idea that if Vancouver Island could be made electrically self-sufficient, there would be that much more power to sell to the US, and more money to be made. This was the genesis of the GS-X/VIGP project, which was continued after the Liberal government took over.

This strategy reached its peak in January 2001, when BC Hydro was buying power at \$173.50 per Mwh and selling at up to \$597.67. However, this price spike turned out to result from market manipulation by Enron and others, and BC Hydro was drawn into a series of legal battles as the State of California attempted to recover its losses.

(To put this in perspective, power could be purchased a year later at \$16.73 per Mwh, and sold at \$30.17. The average cost of power generated by BC Hydro's system is about \$24, while BCUC estimated the cost of power generated by VIGP at \$68.70 to \$102.70.)

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